



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OFFICE OF
CHIEF COUNSEL

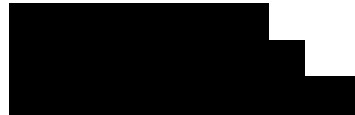
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July 10, 2001

CC:INTL:Br.3:DBergkuist
COR-102004-01



Dear [REDACTED]:

This letter responds to your letters dated January 6, 2001, February 27, 2001, April 11, 2001, and April 14, 2001, to David Bergkuist of my office posing a number of questions concerning section 861 of the Internal Revenue Code. Your earlier inquiry dated October 10, 2000, also raised questions concerning the interaction between the definition of "gross income" in section 61 of the Internal Revenue Code and "the source of income" rules in section 861 through 865. Our letter to you, dated December 21, 2000, explained, in part, that the source rules of section 861 through 865 do not limit or exclude items from consideration for purposes of determining a U.S. citizen's taxable income under sections 61 through 63.

On June 25, 2001, the Internal Revenue Service published Notice 2001-40, I.R.B. 2001-26, which provides, in part, that: "The Internal Revenue Service and the Treasury Department are aware that certain persons are promoting the view that U.S. citizens and residents are not subject to tax on their wages and other income earned or derived within the United States based on the claim that the Internal Revenue Code imposes taxes only on income derived from certain foreign-based activities. The Service and Treasury are issuing this notice to inform taxpayers that this reporting position has no basis in law." A copy of Notice 2001-40 is attached.

With Notice 2001-40 and our previous letter, we have provided you with all the general information we have on this topic.

Sincerely,

Barbara A. Felker (I.D. #: 50-02271)
Chief, Branch 3
Office of the Associate Chief Counsel
(International)